CHAPTER I
INTRODUCTION

1.1   BACKGROUND OF STUDY

Every country has the rights to collect taxes from the citizens. Taxation plays an important role in the economic growth of the country. Indeed, taxes are levied by authorities under legal norms to cover the cost of producing goods and services together to achieve common prosperity. Taxation is used by the government to allocate the money collected from the taxpayers to different areas of the country such as raise revenues for its operations, infrastructure, welfare, education defense. Without taxes, the government would not be able to fund the essential projects and services that society need.

There are many types of tax in Indonesia, Taxpayers must understand the general provisions of taxation in implementing tax obligations. The government implements many types of tax collection system. One of the tax collection system is self-assessment system. In the self-assessment system, the whole process of the implementation of the tax obligation starts from calculating and determining the amount of tax payable, depositing the tax payable to the government, reporting the calculation and depositing and accountable for all obligations made by the Taxpayer. The tax subject is individual, entity or entity that has fulfilled the requirements of residence or domicile in Indonesia. The object of tax is income, defined as any increase in economic capability received or accrued by a taxpayer that originated from Indonesia, in whatever name or form, that can be used to consume or to increase the wealth of the taxpayer. Both entities and individuals want to earn much profit with the least expense. However, an entity's income may be deducted by tax after deducting all operational and other expenses. Therefore, entities should always make their operational

activities as effective as possible so that operational expenses can be minimized.

There are several studies on income tax, previous research that conducted by Saputro (2013) at PT PG Kebon Agung Malang. The writers conclude that Tax Planning that done by PT PG Kebon Agung has been treat by using gross up in properly correct based on rules and regulation and it can minimize corporate tax payable in form of corporate tax savings effectively in period of 2009-2012.

According to Nabilah *et al*. (2016) conclude that the result shows the implementation of tax planning using Gross Up Method is most appropriate for the company. Application of Gross Up Method successfully proved in reducing Income Tax. This reduction in Income Tax is caused by the cost of tax allowance provided to all employees which can be charged as a deductible expense to the company's fiscal profit statement. Thus, the company's fiscal profit becomes smaller, automatically the amount of Income Tax that must be paid by company also decreases.

Entities need employees that are able to get the job done, employees performance is important to the overall success of the company. Therefore, loyalty employees can decide the stability of entities. Then the company should build good relationship with the employees and respect each other. Encourage employees to create the maximum values for the company. If the employer does not have good relationship with employees, then employees might not loyal. Therefore, increasing employees' satisfaction is important. One of effective method to raise employees' satisfaction can be increased by providing bonus, food allowance, transportation allowance, medical allowance, pension allowance, insurance allowance, and so forth for employee. Besides that, each company also has to pay tax to government, every company wants to pay less tax, in order to do tax saving, company has to understand tax planning. Tax planning can help the company in consideration of increasing employee's welfare and making tax saving. The purpose of tax planning is to increase profit and efficiency of tax expense.

One of the tax expense is Article 21 Income tax planning, with understanding proper tax planning, the company can do tax saving

This research is done at PT Hermes Realty Indonesia. This company is limited liability company that engaged in hotel industry. This research is done to know the best method that company can use to efficiency the tax expense. The reason why writer prefer this company as the object of research because this company is a large company that can generate large profits so interesting to investigate how this company does tax planning so that it can be effective and efficient. Furthermore, hospitality industries are one of fast growing and most profitable industries. These industries are not only focusing on making profit, but also build a good relationship with guests, treat customers with respect and fulfill customers' needs and wants.

Based on this background study, then the writer is interested to conduct the research with title as follows: "**Implementation of Income Tax Planning on Article 21 at PT Hermes Realty Indonesia**".

1.2   PROBLEM FORMULATION

Based on the description in the background study above, the problem formulation is:

1. How does PT Hermes Realty Indonesia calculate taxable employees' income tax article 21?

2. How does tax planning on taxable employees' income tax article 21 applied in PT Hermes Realty Indonesia?

1.3   RESEARCH FOCUS

In this research the writer will focus on tax planning article 21 of benefit in kind in year 2018 at PT Hermes Realty Indonesia

1.4 RESEARCH OBJECTIVE

The research objective of this study is to know the method of tax planning in Article 21 to make efficiency income tax payment at PT Hermes Realty Indonesia.

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

1. This research can be used as reference to conduct the further research with same topic.

2. This research can be used as comparison study material in conducting the research in relation to tax planning of benefit in kind.

1.5.2 PRACTICAL BENEFIT

1. The company, this research can give recommendation for the company in conducting tax planning of benefit in kind appropriately.

2. For the writer, this research can be used in increasing the writer's knowledge and experience in taxation especially tax planning of benefit in kind.

1.6 SYSTEMS OF WRITING

In order to write the research systematically, the paper is divided into some chapter as follows:

CHAPTER I: **INTRODUCTION**

This chapter is introduction of the paper that consists of background of study, problem formulation, research focus, research objective, benefit of

research and systems of writing. The background of study, it provides the basis of thought in outline in both theory and fact where it is a reason for this research. Every company want to pay less tax, in order to do tax saving, company has to understand tax planning. Tax planning can help the company in consideration of increasing employee's welfare and making tax saving. Problem formulations contain the question which needs to be analyzed and obtain those answers through the research to achieve the research objective. It is expected that this research can be beneficial for others. The last part of this chapter the system of writing, explains the summary of the research.

CHAPTER II: **LITERATURE REVIEW**

This chapter describes some of theoretical background or concepts that are used as basis in writing the research such as definition of tax and definition of tax planning. which contains the theories derived from the citations of books and websites related to the preparation of reports and some literature reviews related to the research, such as definition of tax, income tax article 21, and also tax planning Relevant previous researches that related with this research and the framework of thinking is a scheme designed to describe the research in briefly.

CHAPTER III: **RESEARCH METHODOLOGY**

This chapter describes how the writer conducts the research. It consists of research design, research

object, data collection method and data analysis method. Research design describes the type of research used in this study, which is qualitative method. The research object is conducted at PT Hermes Realty Indonesia, the data is compiled through observation, interview and collecting data from the company that is needed in the research. The data used in this research are lists of permanent employees, salary, and other supporting data that are needed for research.

CHAPTER IV: **DATA ANALYSIS AND DISCUSSION**

This chapter describes general view of research objects, practices used in the research object and data analysis and discussion. The general description of research object describes the company's business activities and organization structure. Analyze or calculate employees' data, gross income, calculated article 21 using gross up method, and compare the different of the method.

CHAPTER V: **CONCLUSION**

This chapter is final chapter of the research which contains conclusion and implication of the research done by writer and give recommendation that can be useful for company which helps them to make better decision.